

DOUGLAS SCHOOL DISTRICT 51-1
MEADE AND PENNINGTON COUNTIES, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2010

DOUGLAS SCHOOL DISTRICT 51-1

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INDEPENDENT AUDITOR'S REPORT

School Board
Douglas School District 51-1
Meade and Pennington Counties, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT 51-1** (the District), Meade and Pennington Counties, South Dakota, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, and the required supplementary information on pages 39 through 45, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KETEL THORSTENSON, LLP
Certified Public Accountants

March 17, 2011

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

This section of Douglas School District 51-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The District's net assets from governmental and business-type activities increased approximately \$500,000. The total cost of the District's programs increased approximately \$2.5 million.

The General Fund reported a reduction in fund balance of approximately \$100,000 due to an increase in overall general fund expenditures. The Capital Outlay Fund reported a reduction of approximately \$305,000 primarily due to utilizing Impact Aid monies that had previously been held in reserve for capital outlay projects finished during the school year. Finally, the Impact Aid Fund reported a surplus of approximately \$400,000 due to a decrease in the amount of money transferred to the Special Education Fund because of ARRA grants received in that fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (which is this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like businesses. The District's only proprietary funds are the Food Service Fund and Internal Service Funds.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. Most of these are school clubs or clearing accounts.

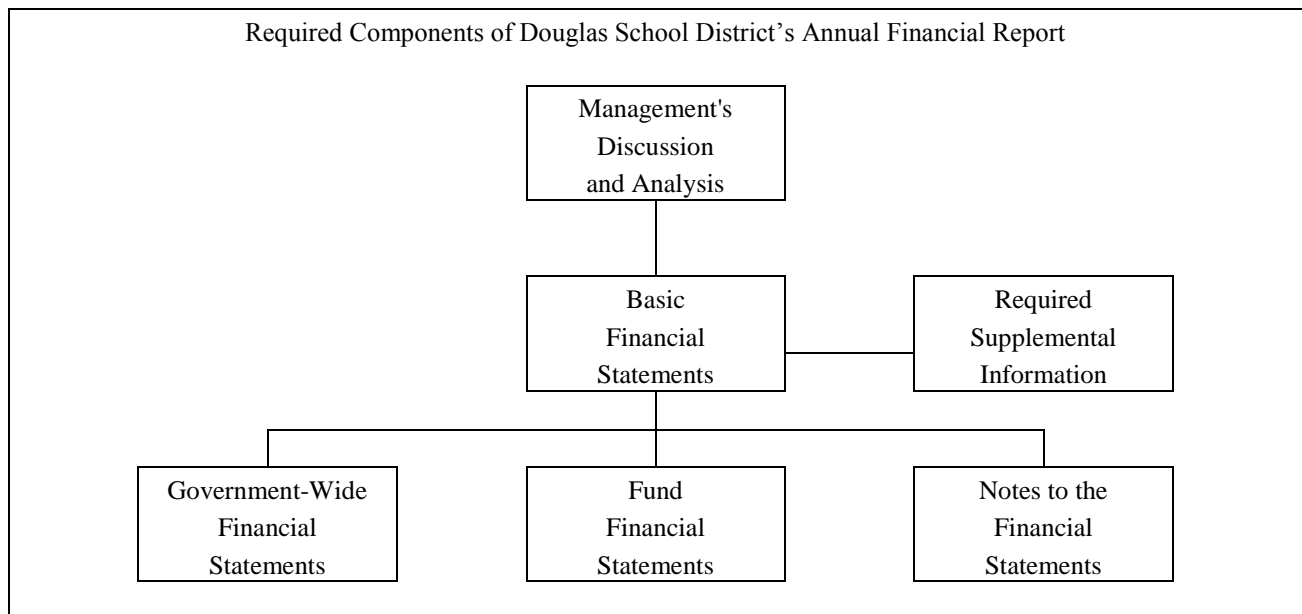
The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

FIGURE A-1



Government-Wide Financial Statements:

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base, changes in the state school aid funding formula from the State of South Dakota, and changes in accounting laws for funds such as Impact Aid.

The government-wide financial statements of the District are reported in two categories:

- **Governmental Activities** – This category includes the District's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), extracurricular activities, (sports, music, etc.) and capital equipment purchases or the construction of buildings. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- **Business-Type Activities** – The District charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the District.

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements:

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds (such as the Capital Outlay and Special Education Funds).
- The District Board of Education establishes other funds to control and manage money for particular purposes (such as the Health Insurance Internal Service Fund).

The District has three types of funds:

- **Governmental Funds** – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can readily be converted into cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service and Internal Service Funds are the only Proprietary Funds the District maintains.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for various external and internal parties. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-2

	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School government (except fiduciary funds).	The activities of the School that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the School operates similar to a private business- food service and internal service.	Instances in which the School is the trustee or agent for someone else's resources.
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet Statement of Revenues, Expenses and Changes in Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets although they can
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets increased as shown on Table A-1:

TABLE A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and Other Assets	\$ 23,393,266	\$ 23,341,576	\$ 320,428	\$ 317,100	\$ 23,713,694	\$ 23,658,676
Capital Assets	23,256,454	24,576,689	29,787	31,885	23,286,241	24,608,574
Total Assets	\$ 46,649,720	\$ 47,918,265	\$ 350,215	\$ 348,985	\$ 46,999,935	\$ 48,267,250
Long-Term Debt Outstanding	\$ 1,053,024	\$ 1,553,512	\$ -	\$ -	\$ 1,053,024	\$ 1,553,512
Other Liabilities	4,343,572	4,597,671	164	14,005	4,343,736	4,611,676
Total Liabilities	5,396,596	6,151,183	164	14,005	5,396,760	6,165,188
Net Assets:						
Invested in Capital Assets	23,256,454	24,576,689	29,787	31,885	23,286,241	24,608,574
Restricted	1,685,930	1,075,540	320,264	303,095	2,006,194	1,378,635
Unrestricted	16,310,740	16,114,853	-	-	16,310,740	16,114,853
Total Net Assets	\$ 41,253,124	\$ 41,767,082	\$ 350,051	\$ 334,980	\$ 41,603,175	\$ 42,102,062
Beginning Net Assets	\$ 42,669,568	\$ 41,253,124	\$ 347,406	\$ 350,051	\$ 43,016,974	\$ 41,603,175
Change in Net Assets	(1,416,444)	513,958	2,645	(15,071)	(1,413,799)	498,887
Percentage of Change in Net Assets	-3.32%	1.25%	0.76%	-4.31%	-3.29%	1.20%

Table A-1 illustrates an increase in overall net assets of 1.25 percent for governmental activities. Business-type activities decreased 4.31 percent from 2009 to 2010. The activities combined accounted for a total increase of 1.20 percent.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of compensated absences payable, have been reported in this manner on the Statement of Net Assets. The difference between the District's assets and liabilities is its net assets.

Changes in Net Assets

The District's revenues totaled \$26,956,753. Approximately 32 percent of the District's revenue comes from Federal Sources, 35 percent from State Sources, and about 14 percent comes from taxes. (See Figure A-3.)

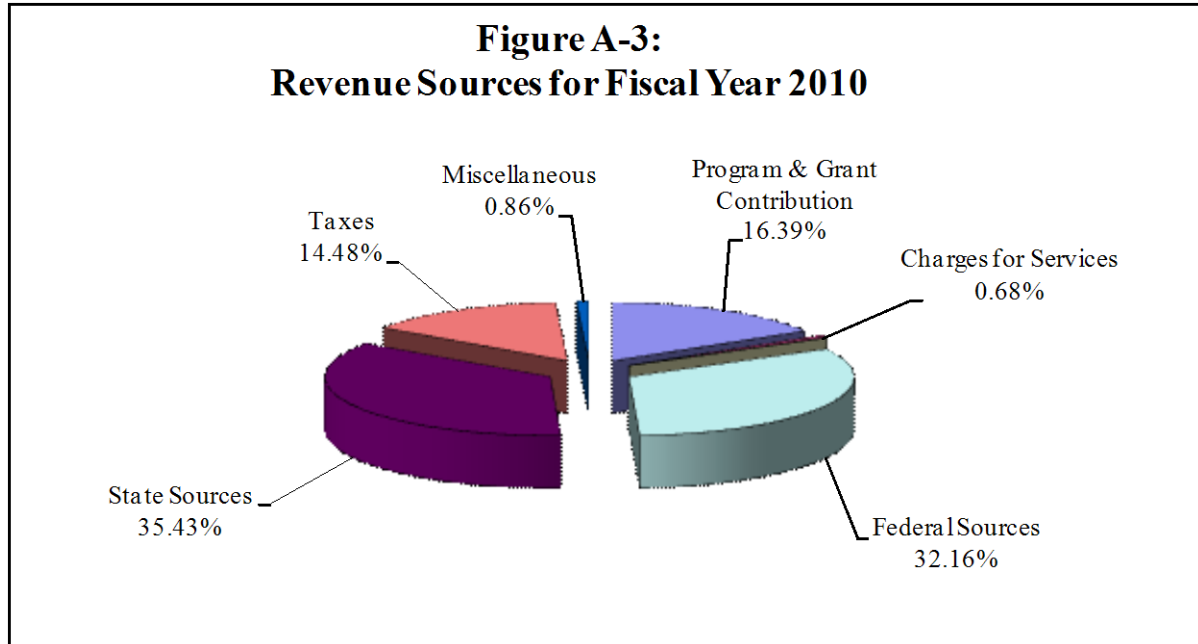
DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

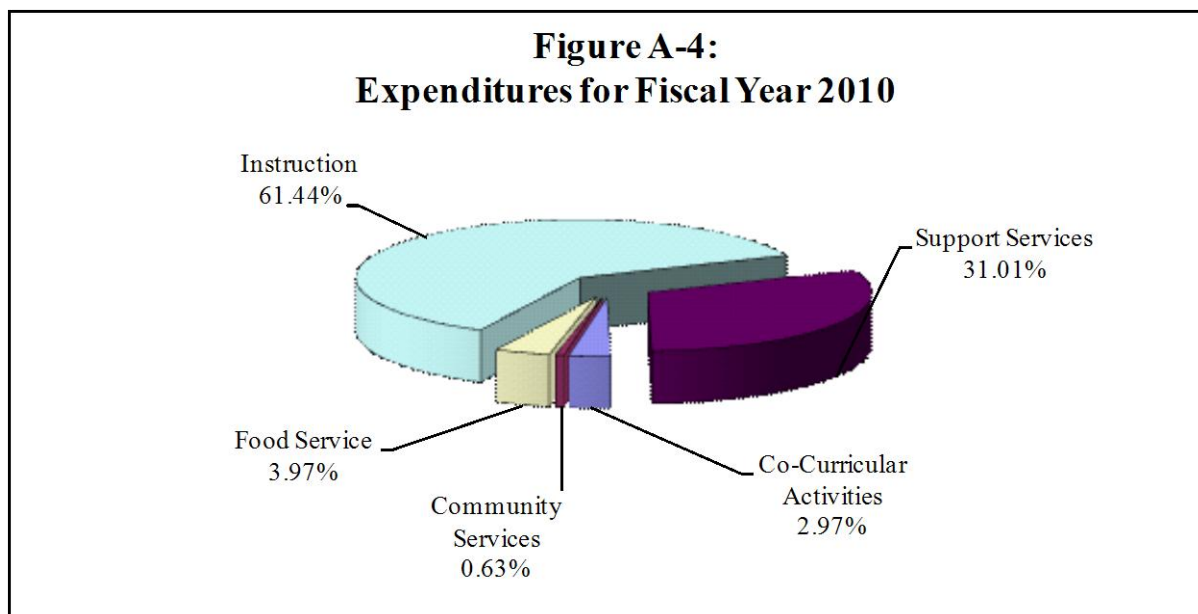
Changes in Net Assets (Continued)

FIGURE A-3



The District's expenses cover a wide range of services, but mainly cover instruction and support services. These account for approximately 92 percent of the total budget in 2010. (See Figure A-4.)

FIGURE A-4



DOUGLAS SCHOOL DISTRICT 51-1

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Assets (Concluded)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

TABLE A-2

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Grand Total	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenues:						
Charges for Services	\$ 177,505	\$ 176,618	\$ 469,177	\$ 509,978	\$ 646,682	\$ 686,596
Operating Grants and Contributions	3,211,508	4,135,489	466,769	524,405	3,678,277	4,659,894
Capital Grants and Contributions	281,280	114,447	-	-	281,280	114,447
General Revenues:						
Taxes	3,549,726	3,754,010	-	-	3,549,726	3,754,010
Revenue from State Sources	8,700,647	9,180,925	-	-	8,700,647	9,180,925
Revenue from Federal Sources	5,302,202	8,337,625	-	-	5,302,202	8,337,625
Other General Revenues	219,168	222,059	133	98	219,301	222,157
Unrestricted Investment Earnings	107,483	1,099	-	-	107,483	1,099
Gain on Sale	-	-	144	-	144	-
Total Revenues	21,549,519	25,922,272	936,223	1,034,481	22,485,742	26,956,753
Expenses						
Instruction	14,664,390	16,254,444	-	-	14,664,390	16,254,444
Support Services	7,460,398	8,203,739	-	-	7,460,398	8,203,739
Community Services	152,157	160,408	-	-	152,157	160,408
Co-curricular Activities	689,018	789,723	-	-	689,018	789,723
Food Service	-	-	933,578	1,049,552	933,578	1,049,552
Total Expenses	22,965,963	25,408,314	933,578	1,049,552	23,899,541	26,457,866
Increase (Decrease) in Net Assets	(1,416,444)	513,958	2,645	(15,071)	(1,413,799)	498,887
Ending Net Assets	\$41,253,124	\$ 41,767,082	\$ 350,051	\$ 334,980	\$41,603,175	\$ 42,102,062

Governmental Activities

The revenues for the governmental activities increased primarily due to ARRA grants received. The increase in expenditures is due primarily to ARRA grants expended.

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONCLUDED)

Business-Type Activities

Revenues of the District's business-type activities generated enough revenues to cover the costs associated with the Food Service program and to continue to establish a fund balance for the fund. This indicates that the combination of the federal reimbursement for meals and the price charged for meals and ala carte items is sufficient to run the program effectively and efficiently.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund balance decreased by \$97,998 in the current year due to an increase in overall general fund expenditures. The Capital Outlay Fund balance decreased by \$305,817 in the current year due to utilizing Impact Aid monies that had previously been held in reserve for capital outlay projects finished during the school year. The Special Education Fund balance increased by \$127,497 due to a large amount of ARRA grant money received during the school year. Finally, the Impact Aid Fund balance increased by \$398,002 due to a decrease in the amount of money transferred to the Special Education Fund because of ARRA grants received in that fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Douglas School District Board of Education approved contingency transfers for unanticipated, yet necessary, expenses to provide items necessary for the education program of the District.

The District's significant budget changes or variances for the year were due to unanticipated grant funding and related expenditures and unanticipated expenditures throughout the year.

CAPITAL ASSET ADMINISTRATION

By the end of 2010, the District had invested over \$24 million (net of depreciation) in a broad range of capital assets, including land, buildings, various machinery and equipment, and construction in progress. This is an increase of approximately \$1.3 million from 2009 due to a combination of \$790,277 in annual depreciation and approximately \$3 million in purchases or construction. (See Table A-3.)

TABLE A-3

	Capital Assets			
	Governmental Activities		Business-Type Activities	
	2009	2010	2009	2010
Buildings	\$ 18,920,269	\$ 19,090,699	\$ -	\$ -
Improvements Other than Buildings	1,596,250	1,558,436	-	-
Equipment	1,854,675	2,454,062	29,787	31,885
Land	121,900	121,900	-	-
Construction Work in Progress	763,360	1,351,592	-	-
Total Capital Assets, Net of Depreciation	\$ 23,256,454	\$ 24,576,689	\$ 29,787	\$ 31,885

DOUGLAS SCHOOL DISTRICT 51-1

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) FOR THE YEAR ENDED JUNE 30, 2010

CAPITAL ASSET ADMINISTRATION (CONTINUED)

The District's fiscal year 2010 capital projects consisted primarily of a geothermal heat pump project at the Douglas Middle School and a school-wide re-roofing and window replacement project. The District is considering possible funding sources as it considers the possibility of building a new elementary school in the future.

LONG-TERM DEBT

At year-end, the District had \$1,553,512 in long-term debt consisting of vacation, voluntary separation, severance pay (sick leave) and post employment benefits.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's economic position has shown little change in the past few years, but there is some concern that the current economic climate could affect it in the near future. The District has again experienced an increase in total property valuation over the last year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes, but the total amount that can be levied is limited by the State of South Dakota.

One of the primary sources of revenue to the District is based on a per student allocation they receive from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal approximately \$4,804 per pupil. However, the allocation for the next year has been proposed to take a 10% cut, so it could decrease to \$4,323 per student. The District has experienced an increase in enrollment from the 2010 to 2011 of approximately 50 students.

Because of the uncertainty of the state aid funding formula, and the questionable Federal funding - mainly in the form of Impact Aid - the District is proceeding cautiously with all expenditures, including any filling of vacant positions, or any new hires.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and other concerned individuals with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Douglas School District Business Office at 400 Patriot Drive, Box Elder, SD 57719.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS:			
Cash and Cash Equivalents (Note 2)	\$ 20,308,010	\$ 289,425	\$ 20,597,435
Taxes Receivable (Note 4)	2,023,426	-	2,023,426
Due From State Government	668,942	-	668,942
Inventories (Note 3)	29,216	27,675	56,891
Other Receivables and Prepaid Expenses	311,982	-	311,982
Capital Assets (Note 5):			
Land	121,900	-	121,900
Buildings, Net of Depreciation	19,090,699	-	19,090,699
Improvements Other than Buildings, Net of Depreciation	1,558,436	-	1,558,436
Equipment, Net of Depreciation	2,454,062	31,885	2,485,947
Construction Work in Progress	1,351,592	-	1,351,592
TOTAL ASSETS	\$ 47,918,265	\$ 348,985	\$ 48,267,250
LIABILITIES:			
Other Current Liabilities	\$ 2,731,159	\$ 11	\$ 2,731,170
Deferred Revenue	1,866,512	13,994	1,880,506
Personnel Liabilities (Note 6):			
Due Within One Year	206,354	-	206,354
Due in More than One Year	1,347,158	-	1,347,158
TOTAL LIABILITIES	6,151,183	14,005	6,165,188
NET ASSETS:			
Invested in Capital Assets	24,576,689	31,885	24,608,574
Restricted for: (Note 12)			
Capital Outlay	779,556	-	779,556
Special Education	401,969	-	401,969
Health and Dental Self-Insurance	(105,985)	-	(105,985)
Food Service	-	303,095	303,095
Unrestricted	16,114,853	-	16,114,853
TOTAL NET ASSETS	41,767,082	334,980	42,102,062
TOTAL LIABILITIES AND NET ASSETS	\$ 47,918,265	\$ 348,985	\$ 48,267,250

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 16,254,444	\$ 54,238	\$ 4,135,489	\$ -	\$ (12,064,717)	\$ -	\$ (12,064,717)
Support Services	8,203,739	-	-	114,447	(8,089,292)	-	(8,089,292)
Community Services	160,408	100,428	-	-	(59,980)	-	(59,980)
Co-Curricular Activities	789,723	21,952	-	-	(767,771)	-	(767,771)
Total Governmental Activities	25,408,314	176,618	4,135,489	114,447	(20,981,760)	-	(20,981,760)
Business-Type Activities:							
Food Service	1,049,552	509,978	524,405	-	-	(15,169)	(15,169)
Total Primary Government	\$ 26,457,866	\$ 686,596	\$ 4,659,894	\$ 114,447	\$ (20,981,760)	\$ (15,169)	\$ (20,996,929)
General Revenues							
Taxes:							
Property Taxes					\$ 3,651,649	\$ -	\$ 3,651,649
Gross Receipts Taxes					102,361	-	102,361
Revenue from State Sources:							
State Aid					9,180,925	-	9,180,925
Revenue from Federal Sources					8,337,625	-	8,337,625
Unrestricted Investment Earnings					1,099	-	1,099
Other General Revenues					222,059	98	222,157
Total General Revenues					21,495,718	98	21,495,816
Change in Net Assets					513,958	(15,071)	498,887
Net Assets - Beginning					41,253,124	350,051	41,603,175
Net Assets - Ending					\$ 41,767,082	\$ 334,980	\$ 42,102,062

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
ASSETS:					
101 Cash and Cash Equivalents (Note 2)	\$ 4,356,728	\$ 474,441	\$ 204,199	\$ 15,138,630	\$ 20,173,998
110 Taxes Receivable--Current (Note 4)	1,069,129	542,062	263,804	-	1,874,995
112 Taxes Receivable--Delinquent (Note 4)	98,046	33,677	16,708	-	148,431
120 Accounts Receivable	5,348	183	-	-	5,531
135 Accrued Interest	42	-	-	-	42
140 Due from State/Federal Government	159,222	328,343	181,377	-	668,942
170 Inventory of Supplies (Note 3)	29,216	-	-	-	29,216
192 Prepaid Assets	306,409	-	-	-	306,409
TOTAL ASSETS	\$ 6,024,140	\$ 1,378,706	\$ 666,088	\$ 15,138,630	\$ 23,207,564
LIABILITIES AND FUND BALANCES:					
Liabilities:					
402 Accounts Payable	\$ 48,065	\$ 56,366	\$ -	\$ -	\$ 104,431
404 Contracts Payable	1,994,096	-	-	-	1,994,096
450 Payroll Deductions and Withholdings and Employer Matching Payable	487,973	-	-	-	487,973
474 Deferred Revenue	1,157,655	576,461	280,827	-	2,014,943
Total Liabilities	3,687,789	632,827	280,827	-	4,601,443
Fund Balances:					
701.2 Reserved for Inventory	29,216	-	-	-	29,216
701.9 Reserved for Prepaid Assets	306,409	-	-	-	306,409
704 Unreserved/Undesignated					
Fund Balances	2,000,726	745,879	385,261	15,138,630	18,270,496
Total Fund Balances	2,336,351	745,879	385,261	15,138,630	18,606,121
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,024,140	\$ 1,378,706	\$ 666,088	\$ 15,138,630	\$ 23,207,564

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds	\$ 18,606,121
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Note 5)	24,576,689
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Long-term liabilities, including vacation payable, severance payable, and voluntary separation payable, are not due in the current period and therefore are not reported in the funds. (Note 6)	(1,553,512)
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Delinquent taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	148,431
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Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	(10,647)
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Net Assets - Governmental Funds	\$ 41,767,082
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The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
Revenues:					
<i>1000 Revenue from Local Sources (Note 4):</i>					
1110 Ad Valorem Taxes	\$ 1,992,334	\$ 1,013,467	\$ 493,295	\$ -	\$ 3,499,096
1120 Prior Years' Ad Valorem Taxes	71,279	31,282	14,959	-	117,520
1140 Gross Receipts Taxes	102,361	-	-	-	102,361
1190 Penalties and Interest on Taxes	14,271	5,456	2,625	-	22,352
1310 Regular Day School Tuition	52,661	-	-	-	52,661
1500 Earnings on Investments and Deposits	805	2	-	292	1,099
<i>1700 Cocurricular Activities:</i>					
1710 Admissions	16,652	-	-	-	16,652
1740 Rentals	200	-	-	-	200
1790 Other Pupil Activity Income	5,100	-	-	-	5,100
<i>1900 Other Revenue from Local Sources:</i>					
1910 Rentals	422	-	-	-	422
1950 Refund of Prior Year's Expenditures	3,771	-	-	-	3,771
1980 Day Care Services	96,235	-	-	-	96,235
1990 Other	20,947	-	-	-	20,947
2110 County Apportionment	183,439	-	-	-	183,439
<i>3000 Revenue from State Sources:</i>					
3110 Unrestricted Grants-in-Aid	9,180,925	-	-	-	9,180,925
3120 Restricted Grants-in-Aid	-	-	1,298,390	-	1,298,390
3320 Tuition - Regular	1,577	-	-	-	1,577
3900 Other State Revenue	13,500	4,173	-	-	17,673
<i>4000 Revenue from Federal Sources:</i>					
4110 Unrestricted Grants-in-Aid Received					
Directly from Federal Government	-	-	-	8,113,003	8,113,003
4120 Unrestricted Grants-in-Aid Received from					
Federal Government Through State	1,740	-	-	-	1,740
4140 Restricted Grants-in-Aid Received					
Directly from Federal Government	23,878	114,447	173,210	-	311,535
4150-4199 Restricted Grants-in-Aid Received					
from Federal Government Through State	1,497,519	-	1,142,492	-	2,640,011
4900 Other Federal Revenue	8,986	213,896	-	-	222,882
Total Revenues	13,288,602	1,382,723	3,124,971	8,113,295	25,909,591
Expenditures:					
<i>1100 Instruction - Regular Programs:</i>					
1110 Elementary	4,610,519	253,641	-	-	4,864,160
1120 Middle/Junior High	2,667,034	219,034	-	-	2,886,068
1130 High School	2,760,475	270,943	-	-	3,031,418
1140 Preschool Services	145,649	-	-	-	145,649
1190 Other Regular Programs	23,878	-	-	-	23,878
<i>1200 Instruction - Special Programs:</i>					
1210 Programs for Gifted and Talented	54,446	-	-	-	54,446
1220 Programs for Special Education	-	10,794	2,137,966	-	2,148,760
1250 Culturally Different	48,873	-	-	-	48,873
1270 Educationally Deprived	496,953	-	-	-	496,953
1290 Other Special Programs	22,694	-	-	-	22,694
<i>2100 Support Services - Pupils:</i>					
2110 Attendance and Social Work	59,122	-	50,200	-	109,322
2120 Guidance	471,755	-	58,416	-	530,171
2130 Health	17,021	-	165,368	-	182,389
2140 Psychological	-	-	66,950	-	66,950
2150 Speech Pathology	-	-	288,659	-	288,659
2170 Student Therapy Services	-	-	93,380	-	93,380

DOUGLAS SCHOOL DISTRICT 51-1

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Impact Aid Fund	Total Governmental Funds
<i>2200 Support Services - Instructional Staff:</i>					
2210 Improvement of Instruction	283,803	-	-	-	283,803
2220 Educational Media	859,517	51,389	-	-	910,906
<i>2300 Support Services - General:</i>					
2310 Board of Education	89,503	-	-	-	89,503
2320 Executive Administration	311,461	-	-	-	311,461
<i>2400 Support Services - School:</i>					
2410 Office of the Principal	865,405	-	-	-	865,405
2440 Title I Program Administration	9,000	-	-	-	9,000
<i>2500 Support Services - Business:</i>					
2520 Fiscal Services	276,521	-	-	-	276,521
2530 Facilities Acquisition and Construction	-	400,929	-	-	400,929
2540 Operation and Maintenance of Plant	2,119,504	19,476	-	-	2,138,980
2550 Pupil Transportation	592,995	1,899	-	-	594,894
2560 Food Service	-	1,698	-	-	1,698
2570 Internal Services	67,353	-	-	-	67,353
<i>2600 Support Services - Central:</i>					
2630 Information	15,108	-	-	-	15,108
2640 Staff	82,999	-	-	-	82,999
<i>2700 Support Services - Special Education:</i>					
2710 Administrative Costs	-	-	255,963	-	255,963
2730 Transportation Costs	-	-	240,856	-	240,856
2750 Other Special Education Costs	-	-	58,635	-	58,635
<i>3000 Community Services:</i>					
3400 Public Library	5,000	796	-	-	5,796
3500 Custody and Care of Children	150,312	-	-	-	150,312
3900 Other	4,300	-	-	-	4,300
4500 Early Retirement	135,851	-	61,081	-	196,932
<i>6000 Co-curricular Activities:</i>					
6100 Male Activities	98,526	-	-	-	98,526
6200 Female Activities	60,575	-	-	-	60,575
6900 Combined Activities	482,067	86,793	-	-	568,860
7500 Capital Outlay	-	3,113,981	-	-	3,113,981
Total Expenditures	17,888,219	4,431,373	3,477,474	-	25,797,066
Excess of Revenue Over (Under) Expenditures	(4,599,617)	(3,048,650)	(352,503)	8,113,295	112,525
Other Financing Sources (Uses):					
5110 Transfers In (Note 7)	4,500,295	2,735,000	480,000	-	7,715,295
5130 Sale of Capital Assets	1,324	7,835	-	-	9,159
8110 Transfers Out (Note 7)	-	(2)	-	(7,715,293)	(7,715,295)
Total Other Financing Sources (Uses)	4,501,619	2,742,833	480,000	(7,715,293)	9,159
Net Change in Fund Balances	(97,998)	(305,817)	127,497	398,002	121,684
Fund Balance -- June 30, 2009	2,434,349	1,051,696	257,764	14,740,628	18,484,437
Fund Balance -- June 30, 2010	\$ 2,336,351	\$ 745,879	\$ 385,261	\$ 15,138,630	\$ 18,606,121

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 121,684

Amounts reported for governmental activities in the Statement of Activities are different
because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 1,323,704

In the Statement of Activities, gains and losses on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from sale of fixed assets is reflected, regardless of whether a gain or loss is realized. (3,469)

The fund financial statement property tax accruals differ from the government wide statement property tax accruals as the fund financial statements require the amounts to be "available." 12,681

Governmental funds recognize expenditures for amounts of compensated absences and voluntary separation actually paid to employees with current financial resources. Amounts of compensated absences earned by employees are not recognized in the funds. In the Statement of Activities, expenses for these benefits are recognized when employees earn leave or elect to retire early. (433,776)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net expenses of the internal service funds is reported with governmental activities. (440,154)

Government-wide financial statements require other post employment benefits to be recorded on the accrual basis, whereas the fund financial statements required the modified accrual basis. (66,712)

Change in Net Assets of Governmental Activities	\$	513,958
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The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**PROPRIETARY FUND BALANCE SHEET
JUNE 30, 2010**

	Enterprise Fund	Internal Service Funds
ASSETS:		
<i>Current Assets:</i>		
101 Cash and Cash Equivalents (Note 2)	\$ 289,425	\$ 134,012
120 Accounts Receivable	-	-
170 Inventory of Supplies (Note 3)	23,398	-
172 Inventory of Donated Food (Note 3)	4,277	-
Total Current Assets	317,100	134,012
<i>Noncurrent Assets (Note 5):</i>		
204 Equipment	136,413	-
Less: Accumulated Depreciation	(104,528)	-
Total Noncurrent Assets	31,885	-
TOTAL ASSETS	\$ 348,985	\$ 134,012
LIABILITIES:		
<i>Current Liabilities:</i>		
402 Accounts Payable	\$ 11	\$ -
409 Incurred But Not Reported Claims (Note 10)	-	144,659
474 Deferred Revenue	13,994	-
Total Current Liabilities	14,005	144,659
NET ASSETS:		
706 Invested in Capital Assets	31,885	-
708 Unrestricted Net Assets	303,095	(10,647)
Total Net Assets	334,980	(10,647)
TOTAL LIABILITIES AND NET ASSETS	\$ 348,985	\$ 134,012

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise Fund	Internal Service Funds
Operating Revenue:		
<i>Sales:</i>		
1610 To Pupils	\$ 376,072	\$ -
1620 To Adults	7,019	-
1630 A la Carte	61,027	-
1650 Child Care	21,831	-
1690 Miscellaneous	44,029	-
1970 Self-Insurance Premiums	-	1,514,524
Total Operating Revenue	509,978	1,514,524
Operating Expenses:		
<i>2560 Food Service:</i>		
100 Salaries	354,898	-
200 Employee Benefits	110,369	-
300 Purchased Services	10,727	-
400 Supplies	27,969	-
461 Cost of Sales - Purchased Food	511,438	-
462 Cost of Sales - Donated Food	29,892	-
910 Depreciation - Local Funds (Note 5)	4,259	-
4620 Self Insurance Costs (Note 10)	-	1,597,052
4900 Other Premiums	-	357,626
Total Operating Expenses	1,049,552	1,954,678
Operating Loss	(539,574)	(440,154)
Nonoperating Revenue:		
<i>Local Sources:</i>		
1990 Other	98	-
<i>State Sources:</i>		
3810 Cash Reimbursements	5,454	-
<i>Federal Sources:</i>		
4810 Cash Reimbursements	493,566	-
4820 Donated Food	25,385	-
Total Nonoperating Revenue	524,503	-
Change in Net Assets	(15,071)	(440,154)
Net Assets -- Beginning	350,051	429,507
Net Assets -- Ending	\$ 334,980	\$ (10,647)

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**PROPRIETARY FUND STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Enterprise Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 523,972	\$ -
Receipts from Interfund Services Provided	-	1,514,524
Payments to Suppliers	(554,765)	-
Payments to Employees	(465,267)	-
Claims Paid	-	(1,516,191)
Other Disbursements	-	(357,626)
Net Cash Used in Operating Activities	(496,060)	(359,293)
Cash Flows from Noncapital Financing Activities:		
Operating Subsidies	499,118	-
Cash Flows from Capital Financing Activities:		
Purchase of Equipment	(6,357)	-
Net Decrease in Cash and Cash Equivalents	(3,299)	(359,293)
Cash and Cash Equivalents at Beginning of Year	292,724	493,305
Cash and Cash Equivalents at End of Year	\$ 289,425	\$ 134,012
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	\$ (539,574)	\$ (440,154)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:</i>		
Depreciation Expense	4,259	-
Value of Donated Commodities Used	29,892	-
<i>Change in Assets and Liabilities:</i>		
Inventories	(4,478)	-
Accounts Receivable	-	15,345
Accounts and Other Payables	(153)	65,516
Deferred Revenue	13,994	-
Net Cash Used in Operating Activities	\$ (496,060)	\$ (359,293)
Noncash Investing, Capital and Financing Activities:		
Value of Commodities Received	\$ 25,385	\$ -

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	Private-Purpose Trust Fund	Agency Funds
<u>ASSETS:</u>		
Cash and Cash Equivalents (Note 2)	\$ -	\$ 80,007
<u>LIABILITIES:</u>		
Amounts Held for Others	-	\$ 80,007
<u>NET ASSETS:</u>		
Held in Trust for Scholarships	\$ -	

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Contributions and Donations	\$ -
DEDUCTIONS	
Scholarships Awarded	500
Change in Net Assets	(500)
Net Assets -- Beginning	500
Net Assets -- Ending	\$ -

The accompanying notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments.

a. Financial Reporting Entity

The reporting entity of Douglas School District No. 51-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The Funds included in this report are controlled by or dependent upon the Douglas School Board of Education.

The Douglas School District (the District) participates in a cooperative service unit with several other school districts. See Note 9 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the District.

b. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Eliminations have been made to prevent the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and Impact Aid, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenue, and expenditures or expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all of the general operational costs of the District, excluding the Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the District include the following:

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of, or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the District. This fund is financed by grants and property taxes. This is a major fund.

Impact Aid Fund – A fund established by SDCL 13-16-30 and 13-16-31 to account for the receipt of federal funds under the provisions of P.L. 103-382, Title VII for basic support. No expenditures may be directly charged to this fund. This is a major fund.

Proprietary Funds:

Enterprise Fund Types – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The only Enterprise Fund is the Food Service Fund.

Food Service Fund - A fund used to record the financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Internal Service Fund Types – Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the District, or to other governments, on a cost-reimbursement basis. The Health Insurance, Dental Insurance, and Unemployment Insurance Funds are internal service funds maintained by the District. Internal service funds are never considered to be major funds.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Funds – Private-Purpose Trust Funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District maintains one private-purpose trust fund, which is a scholarship fund that was established by a donation made to the District for payment of scholarships to District students.

Agency Funds – Agency Funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations. The District maintains a variety of Agency Funds. Agency Funds are established to account for the monies earned by student organizations for various expenditures. The other Agency Funds account for the monies contributed by employees for health and dependent care expenses.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-Wide Financial Statements:

In the Government-Wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued):

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 60 days. Reported deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. For the District, these consist primarily of property taxes.

Expenditures generally are recognized when the related fund liability is incurred.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Deferred revenues reported in the proprietary fund consist of advance food service sales.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, improvements, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Financial Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-Wide Financial Statements (Continued):

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Government-Wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) for land, buildings, improvements, and equipment are all set at \$5,000. The depreciation method used for buildings, improvements, and equipment is straight-line. Land is an inexhaustible capital asset and is not depreciated.

The estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Buildings	10-60 years
Improvements Other than Buildings	10-20 years
Equipment	10-20 years

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of vacation payable, voluntary separation (early retirement benefits) payable, sick leave/severance payable and other post employment benefit payable.

Annual vacation is earned by the employees at the rate of 10 to 20 days per year based on an employee's number of years of service. Upon termination, employees are entitled to receive compensation for their accrued vacation at their current rate of pay. The amount of this compensation shall not exceed vacation time earned during a two-year period.

Certified employees may participate in a voluntary separation program. Upon meeting certain criteria, cash benefits equal to their current salary times five percent times their years of service (maximum of 20 years) may be paid in one payment or multiple payments to the eligible employees upon termination. The District's total payments for voluntary separation may not exceed two percent of the budget for certified instructional salaries in any given year. A long-term liability is recognized for the total benefits calculated to be payable in future periods. As of June 30, 2010, there are two employees that have applied and been approved for separation. No discount rate was used to estimate the effect of making the cash payments over a two year period, as it would be insignificant.

Sick leave/severance pay is earned by the employees at the rate of 6 to 15 days per year based on annual hours of work. Upon termination, administrators, directors, classified and certified employees attaining age 45 with at least ten years of service are entitled to receive compensation for their respective accrued sick leave balance at one-half of their accumulated balance at a rate equal to an average of the employee's daily rate of pay over the five-year period immediately preceding termination, in the form of a severance bonus.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities (Continued)

Funding for annual leave, voluntary separation, and sick leave is expended in the General Fund and the Special Education fund.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The payment of these long-term liabilities is reported as expenditures. The accounting for the proprietary fund is on the accrual basis, the same as in the government-wide statements.

g. Program Revenues

In the Government-Wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The District pools its cash resources for depositing and investing purposes. The District has access to its cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash and cash equivalents, including for the purpose of the Statement of Cash Flows.

j. Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Concluded)

j. Equity Classifications (Continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance and may distinguish between “reserved” and “unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for the Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets

It is the District’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(2) Deposits and Investments

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating, which may not be less than “AA,” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2010, the District’s cash and investments consisted only of checking, savings, and money market accounts. All of these accounts are insured or collateralized in the District’s name. State law limits eligible investments for the District. The District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Additionally, as of June 30, 2010, none of the District’s deposits were exposed to custodial credit risk nor were more than five percent of the District’s investments invested in one issuer.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District’s policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(3) Inventory

Inventory of the business-type activities is valued at the lower of cost or market value. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at the date of receipt.

In the governmental activities and fund financial statements, inventory is initially recorded as assets and charged to expense in the various functions of government as they are consumed.

Inventories in the General Fund consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

(4) Property Tax

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1. They are payable in two installments on or before the following April 30 and October 31. The counties bill and collect the District's taxes and remit them to the District.

District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable, which is not intended to be used to finance the current year's appropriations and therefore is not susceptible to accrual, has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the availability period.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(5) Changes in Capital Assets

A summary of changes in capital assets in governmental funds for the year ended June 30, 2010, is as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Governmental Activities:				
Capital Assets, not Depreciated:				
Land	\$ 121,900	\$ -	\$ -	\$ 121,900
Construction Work in Progress	763,360	588,232	-	1,351,592
	885,260	588,232	-	1,473,492
Capital Assets, Depreciated:				
Buildings	33,398,539	1,227,852	-	34,626,391
Improvements Other Than Buildings	3,032,225	119,175	-	3,151,400
Equipment -- Local Funds	3,560,864	1,178,722	(101,254)	4,638,332
Equipment -- Federal Funds	172,000	-	-	172,000
	40,163,628	2,525,749	(101,254)	42,588,123
Less Accumulated Depreciation for:				
Buildings	14,478,270	1,057,422	-	15,535,692
Improvements Other Than Buildings	1,435,975	156,989	-	1,592,964
Equipment -- Local Funds	1,723,389	558,666	(97,785)	2,184,270
Equipment -- Federal Funds	154,800	17,200	-	172,000
	17,792,434	1,790,277	(97,785)	19,484,926
Governmental Capital Assets, Net	\$ 23,256,454	\$ 1,323,704	\$ (3,469)	\$ 24,576,689

Construction work in progress at June 30, 2010, includes an irrigation project, heat pump project, and roof and window replacement project. As of June 30, 2010, \$1,619, \$770,010, and \$579,963 has been expended towards these projects, respectively, but there are no contract obligations for any of the projects.

Depreciation expense was charged to functions within governmental activities as follows:

Instruction	\$ 1,399,661
Support Services	328,854
Co-curricular Activities	61,762
Total Depreciation Expense	\$ 1,790,277

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

(5) Changes in Capital Assets (Continued)

Capital asset activity in business-type funds for the fiscal year ended June 30, 2010, is as follows:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2010</u>
Business-Type Activities:				
Capital Assets, Depreciated:				
Equipment	\$ 130,056	\$ 6,357	\$ -	\$ 136,413
Less Accumulated Depreciation for:				
Equipment	100,269	4,259	-	104,528
Business-Type Capital Assets, Net	\$ 29,787	\$ 2,098	\$ -	\$ 31,885

(6) Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2010, is as follows:

	<u>2009</u>	Benefits <u>Earned</u>	Benefits <u>Paid</u>	<u>2010</u>	<u>Due Within One Year</u>
Vacation Liability	\$ 116,132	\$ 95,845	\$ (77,978)	\$ 133,999	\$ 78,000
Voluntary Separation Liability	58,620	201,506	(187,597)	72,529	40,354
Severance Pay (Sick Leave) Liability	824,000	490,253	(88,253)	1,226,000	88,000
Net OPEB Obligation (Note 11)	54,272	88,880	(22,168)	120,984	-
General Long-Term Debt	\$ 1,053,024	\$ 876,484	\$ (375,996)	\$ 1,553,512	\$ 206,354

The remaining voluntary separation liability is payable as follows for the fiscal years ending June 30:

2011	\$ 40,354
2012	32,175
	<u>\$ 72,529</u>

These long-term liabilities will be paid from the General Fund and the Special Education Fund.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(7) Interfund Transfers

Interfund transfers for the year ended June 30, 2010, were as follows:

	Transfer In	Transfer Out
General Fund	\$ 4,500,295	\$ -
Capital Outlay Fund	2,735,000	(2)
Special Education Fund	480,000	-
Impact Aid Fund	-	(7,715,293)
Total	\$ 7,715,295	\$ (7,715,295)

Transfers are used to move unrestricted revenues collected in the Impact Aid Fund to other funds to finance various programs in accordance with budgetary authorizations. Transfers are also used to move interest earnings from the fund making the investment to the General Fund.

(8) Retirement Plan

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SD Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees (Class A Members) are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution and to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to SDRS for the fiscal years ended June 30, 2010, 2009, and 2008 were **\$919,197**, \$877,736, and \$821,435, respectively, equal to the required contribution each year.

(9) Joint Ventures

The District participates in the Black Hills Special Services Cooperative, a cooperative service unit (the Co-op) formed for the purpose of providing special educational services to the member school districts. During the year ended June 30, 2010, the District paid **\$249,112** for services provided by the Co-op. The Co-op's governing board (the Board) is composed of one representative from each member school district, who is a school board member. The Board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The District retains no equity in the net assets of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described below.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(9) Joint Ventures (Continued)

The members of the Co-op and their relative percentage participation are as follows:

Spearfish School District No. 40-2	8.33%
Lead-Deadwood School District No. 40-1	8.33%
Oelrichs School District No. 23-3	8.33%
Meade School District No. 46-1	8.33%
Rapid City Area School District No. 51-4	8.33%
Belle Fourche School District No. 9-1	8.33%
Custer School District No. 16-1	8.33%
Douglas School District No. 51-1	8.33%
Edgemont School District No. 23-1	8.33%
Haakon School District No. 27-1	8.33%
Hill City School District No. 51-2	8.33%
Hot Springs School District No. 23-2	8.33%

Separate financial statements for this joint venture are available from Black Hills Special Services Cooperative, Sturgis, South Dakota. At June 30, 2010, this joint venture had total fund equity of \$4,030,738 (unaudited) and long-term debt of \$872,443 (unaudited).

(10) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the District managed its risks as follows:

Property/Liability Insurance:

The District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing facilities to the members; to defend and protect the members against liability; to advise members on loss control guidelines and procedures; to provide them with risk management services, loss control and risk reduction information; and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the ASBSD-PLF member, based on their exposure or type of coverage.

The agreement with the ASBSD-PLF provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The District carries various deductibles for various types of coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded liability coverage during the past three years.

Workmen's Compensation:

The District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool (the Fund), which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(10) Risk Management (Continued)

Workmen's Compensation (Continued):

The District pays an annual premium, to provide workers' compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$1,000,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The District has elected to be self-insured and retain all risk for liabilities arising from claims for unemployment benefits.

The District has designated equity in the Unemployment Insurance - Internal Service Fund in the amount of **\$95,340** for the payment of future unemployment benefits.

During the year ended June 30, 2010, **\$4,993** in claims for unemployment benefits were filed of which **\$1,659** remained unpaid at year-end.

Employee Health Insurance:

The District has self-insurance for health insurance through a third-party. The health insurance plan is accounted for in an Internal Service Fund of the District. As part of the health care coverage, the District purchases re-insurance which pays in excess of \$50,000 per employee and claims in excess of \$1,000,000 in the aggregate. Accounts payable for claims incurred but not paid of **\$143,000** is recorded in an Internal Service Fund in the Proprietary Fund Balance Sheet. The accrual is based on payments made subsequent to year end for claims incurred prior to June 30, 2010. The District has net assets in the Health and Dental Insurance Internal Service Funds in the amount of **(\$107,560)** and **\$1,573** for the payment of health and dental insurance claims, respectively.

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2009 were as follows:

	Health Insurance
Benefit Claims Payable at June 30, 2008	\$ 158,495
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,578,796
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	1,658,148
Incurred But Not Reported Claims at June 30, 2009	\$ 79,143

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

(10) Risk Management (Concluded)

Employee Health Insurance (Continued):

Changes in the aggregate liabilities of the self insurance funds during fiscal year 2010 were as follows:

	Health Insurance
Benefit Claims Payable at June 30, 2009	\$ 79,143
<i>Claims Incurred:</i>	
Attributable to Insured Events of the Current Year	1,592,059
<i>Claims Paid:</i>	
Attributable to Insured Events of Current and Prior Years	1,528,202
	<hr/>
Incurred But Not Reported Claims at June 30, 2010	\$ 143,000
	<hr/>

(11) Other Post Employment Benefits (OPEB) Plan

Plan Description

A continuation of benefits may be purchased upon retirement by employees who are participants in the District's group health plan (the Plan) and who meet the following two requirements: (1) have worked for the District at least 10 years and (2) have been participants in the District's Plan for the last five years when they retire at age 50 or older. Coverage ceases when the retiree attains the age of 65 or becomes eligible for Medicare, except for COBRA coverage if elected. Spouse/Dependent coverage is provided as long as the required contributions are paid. Dependents may continue coverage after the retiree's coverage terminates for a maximum of 18 months or until the dependent is eligible for Medicare, whichever is shorter. The retiree is responsible for 115 percent of the full active premium rates for either single, two-party or family coverage. SDCL 6-1-16 specifically allows any municipality, county or school district to provide health insurance for retiring employees and their dependents.

GAAP requires the actuarial amounts to be calculated using age adjusted premiums that approximate costs for retirees separately from those for active employees. The use of age adjusted premiums results in the inclusion of an implicit rate subsidy of the benefit costs to retirees by the District.

Currently, there are 361 active participants and 2 retirees with a spouse who are participating in the Plan. Because the District does not use a trust fund to administer the financing of other postemployment benefits, no separate financial statements are required.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost, the percentage of annual OPEB costs contributed, and the net OPEB obligation for the year ended June 30, 2010, were as follows:

Annual Required Contribution	\$ 86,438
Interest on Net OPEB Obligation	2,443
Adjustment to Annual Required Contribution	<u>(3,189)</u>
Annual OPEB Cost	85,692
Contributions Made	<u>(18,980)</u>
Change in Net OPEB Obligation	66,712
Net OPEB Obligation - Beginning of Year	54,272
Net OPEB Obligation - End of (Note 6)	<u><u>\$ 120,984</u></u>
Percentage Contributed	21.96%

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2010

(11) Other Post Employment Benefits (OPEB) Plan (Continued)

Funded Status

As of July 1, 2008, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$746,980. The annual payroll for active employees covered by the Plan in the actuarial valuation for the 2009-2010 fiscal year was \$12,294,791 for a ratio of the UAAL to covered payroll of 6.1% percent.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

Funding Policy

The contribution requirements of the covered retirees are established and may be amended by the School Board. The District has retained the right to unilaterally modify its payments toward retiree health care benefits. There is no direct District subsidy for retiree health insurance coverage. The District funds the other post employment benefits on a pay-as-you-go basis.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information.

Actuarial Methods and Assumptions

The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit actuarial cost method was used in the July 1, 2009 valuation. The actuarial assumptions included a 4.5 percent investment rate of return. The initial healthcare cost trend rate was 10 percent reduced by 1 percent each year to an ultimate rate of 5 percent. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3 percent. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

(12) Restricted Net Assets

Restricted net assets for the year ended June 30, 2010 were as follows:

Purpose

Restricted By

Major Funds:

Capital Outlay Purposes	Law
Special Education Purposes	Law
Health and Dental Self-Insurance	Law
Food Service Purposes	Federal Regulations

(13) Contingency

Testing for compliance with provisions of federal grants and contracts resulted in questioned costs totaling \$16,516. The ultimate resolution of the related compliance matters and the determination of the amount of federal awards that must be repaid, if any, are up to the federal granting agency and will be determined at a future date. The District believes that any amounts that may be required to be repaid to granting agencies is not material; and accordingly, has not made provision in the financial statements for any possible losses in connection herewith.

REQUIRED SUPPLEMENTARY INFORMATION

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 1,783,000	\$ 1,783,000	\$ 1,992,334	\$ 209,334
1120 Prior Years' Ad Valorem Taxes	45,000	45,000	71,279	26,279
1130 Tax Deed Revenue	1,800	1,800	-	(1,800)
1140 Gross Receipts Taxes	100,000	100,000	102,361	2,361
1190 Penalties and Interest on Taxes	10,000	10,000	14,271	4,271
1310 Regular Day School Tuition	53,000	53,000	52,661	(339)
1500 Earnings on Investments and Deposits	99,000	99,000	805	(98,195)
<i>1700 Cocurricular Activities:</i>				
1710 Admissions	16,000	16,000	16,652	652
1740 Rentals	1,000	1,000	200	(800)
1790 Other Pupil Activity Income	4,000	4,000	5,100	1,100
<i>1900 Other Revenue from Local Sources:</i>				
1910 Rentals	-	-	422	422
1950 Refund of Prior Year's Expenditures	-	-	3,771	3,771
1980 Day Care Services	90,000	90,000	96,235	6,235
1990 Other	16,850	16,850	20,947	4,097
2110 County Apportionment	200,000	200,000	183,439	(16,561)
<i>3000 Revenue from State Sources:</i>				
3110 Unrestricted Grants-in-Aid	9,283,000	9,283,000	9,180,925	(102,075)
3320 Tuition - Regular	-	-	1,577	1,577
3900 Other State Revenue	13,500	13,500	13,500	-
<i>4000 Revenue from Federal Sources:</i>				
4120 Unrestricted Grants-in-Aid Received from Federal Government Through State	2,600	2,600	1,740	(860)
4140 Restricted Grants-in-Aid Received Directly from Federal Government	23,878	23,878	23,878	-
4150-4199 Restricted Grants-in-Aid Received from Federal Government Through State	1,599,471	1,599,471	1,497,519	(101,952)
4900 Other Federal Revenue	8,250	8,250	8,986	736
Total Revenues	13,350,349	13,350,349	13,288,602	(61,747)
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	5,068,641	5,068,641	4,610,519	458,122
1120 Middle/Junior High	2,768,088	2,768,088	2,667,034	101,054
1130 High School	2,874,257	2,874,257	2,760,475	113,782
1140 Preschool Services	147,208	147,208	145,649	1,559
1190 Other Regular Programs	23,878	23,878	23,878	-
<i>1200 Instruction - Special Programs:</i>				
1210 Gifted and Talented	57,624	57,624	54,446	3,178
1250 Culturally Different	49,805	49,805	48,873	932
1270 Educationally Deprived	591,497	591,497	496,953	94,544
1290 Other Special Programs	24,018	24,018	22,694	1,324

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	51,200	51,200	59,122	(7,922)
2120 Guidance	500,791	500,791	471,755	29,036
2130 Health	20,100	20,100	17,021	3,079
<i>2200 Support Services - Instructional Staff:</i>				
2210 Improvement of Instruction	379,670	379,670	283,803	95,867
2220 Educational Media	848,741	865,741	859,517	6,224
<i>2300 Support Services - General:</i>				
2310 Board of Education	112,341	112,341	89,503	22,838
2320 Executive Administration	319,554	319,554	311,461	8,093
<i>2400 Support Services - School:</i>				
2410 Office of the Principal	904,173	904,173	865,405	38,768
2440 Title I Program Administration	-	-	9,000	(9,000)
2490 Other	9,000	9,000	-	9,000
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	271,309	271,309	276,521	(5,212)
2540 Operation and Maintenance of Plant	2,232,481	2,232,481	2,119,504	112,977
2550 Pupil Transportation	727,217	727,217	592,995	134,222
2570 Internal Services	68,422	69,436	67,353	2,083
<i>2600 Support Services - Central:</i>				
2630 Information	15,000	15,108	15,108	-
2640 Staff	104,574	104,574	82,999	21,575
<i>3000 Community Services:</i>				
3400 Public Library	5,841	5,841	5,000	841
3500 Custody and Care of Children	164,503	164,503	150,312	14,191
3900 Other	4,300	4,300	4,300	-
<i>4000 Nonprogrammed Charges:</i>				
4500 Early Retirement	192,201	192,201	135,851	56,350
<i>6000 Cocurricular Activities:</i>				
6100 Male Activities	108,354	108,354	98,526	9,828
6200 Female Activities	60,806	60,806	60,575	231
6900 Combined Activities	519,920	519,920	482,067	37,853
7000 Contingencies	208,218	143,039	-	143,039
Total Expenditures	19,433,732	19,386,675	17,888,219	1,498,456
Excess of Revenue Under Expenditures	(6,083,383)	(6,036,326)	(4,599,617)	1,436,709
Other Financing Sources:				
5110 Transfers In	6,534,000	6,534,000	4,500,295	(2,033,705)
5130 Sale of Surplus Property	-	-	1,324	1,324
Total Other Financing Sources	6,534,000	6,534,000	4,501,619	(2,032,381)
Net Change in Fund Balances	450,617	497,674	(97,998)	(595,672)
Fund Balance -- Beginning	2,434,349	2,434,349	2,434,349	-
Fund Balance -- Ending	\$ 2,884,966	\$ 2,932,023	\$ 2,336,351	\$ (595,672)

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

CAPITAL OUTLAY FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 867,000	\$ 867,000	\$ 1,013,467	\$ 146,467
1120 Prior Years' Ad Valorem Taxes	18,000	18,000	31,282	13,282
1190 Penalties and Interest on Taxes	3,500	3,500	5,456	1,956
1500 Earnings on Investments and Deposits	-	-	2	2
1900 Other Revenue from Local Sources	2,000	2,000	-	(2,000)
3900 Other State Revenue	-	-	4,173	4,173
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	100,000	100,000	-	(100,000)
4140 Restricted Grants-in-Aid Received				
Directly from Federal Government	-	-	114,447	114,447
4900 Other Federal Revenue	175,000	175,000	213,896	38,896
Total Revenues	1,165,500	1,165,500	1,382,723	217,223
Expenditures:				
<i>1100 Instruction - Regular Programs:</i>				
1110 Elementary	962,774	1,009,283	840,132	169,151
1120 Middle/Junior High	1,466,552	2,139,557	1,955,837	183,720
1130 High School	491,236	786,129	575,507	210,622
<i>1200 Special Programs</i>				
1220 Programs for Special Education	10,976	10,976	10,794	182
<i>2200 Support Services - Instructional Staff:</i>				
2220 Educational Media	82,486	82,486	76,346	6,140
<i>2500 Support Services - Business:</i>				
2520 Fiscal Services	13,350	13,350	-	13,350
2530 Facilities Acquisition and Construction	163,700	574,940	526,292	48,648
2540 Operation and Maintenance of Plant	107,442	107,442	95,497	11,945
2550 Pupil Transportation	211,379	219,935	219,935	-
2560 Food Services	2,050	43,444	43,444	-
<i>3000 Community Services:</i>				
3400 Public Library	800	800	796	4
<i>6000 Co-curricular Activities:</i>				
6900 Combined Activities	95,120	95,120	86,793	8,327
Total Expenditures	3,607,865	5,083,462	4,431,373	652,089
Excess of Revenue Under Expenditures	(2,442,365)	(3,917,962)	(3,048,650)	869,312
Other Financing Sources (Uses):				
5110 Transfers In	1,892,331	1,892,331	2,735,000	842,669
5130 Sale of Surplus Property	-	-	7,835	7,835
8110 Transfers Out	-	-	(2)	(2)
Total Other Financing Sources	1,892,331	1,892,331	2,742,833	850,502
Net Change in Fund Balances	(550,034)	(2,025,631)	(305,817)	1,719,814
Fund Balance -- Beginning	1,051,696	1,051,696	1,051,696	-
Fund Balance -- Ending	\$ 501,662	\$ (973,935)	\$ 745,879	\$ 1,719,814

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

SPECIAL EDUCATION FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
<i>1000 Revenue from Local Sources:</i>				
1110 Ad Valorem Taxes	\$ 417,750	\$ 417,750	\$ 493,295	\$ 75,545
1120 Prior Years' Ad Valorem Taxes	8,500	8,500	14,959	6,459
1190 Penalties and Interest on Taxes	1,750	1,750	2,625	875
<i>3000 Revenue from State Sources:</i>				
3120 Restricted Grants-in-Aid	1,325,000	1,325,000	1,298,390	(26,610)
<i>4000 Revenue from Federal Sources:</i>				
4140 Restricted Grants-in-Aid Received				
Directly from Federal Government	225,000	225,000	173,210	(51,790)
4150-4199 Restricted Grants-in-Aid Received				
from Federal Government Through State	1,142,492	1,142,492	1,142,492	-
Total Revenues	3,120,492	3,120,492	3,124,971	4,479
Expenditures:				
<i>1200 Instruction - Special Programs:</i>				
1220 Programs for Special Education	2,209,070	2,209,070	2,137,966	71,104
<i>2100 Support Services - Pupils:</i>				
2110 Attendance and Social Work	50,200	50,200	50,200	-
2120 Guidance	63,790	63,790	58,416	5,374
2130 Health	164,071	165,368	165,368	-
2140 Psychological	66,950	66,950	66,950	-
2150 Speech Pathology	409,236	409,236	288,659	120,577
2170 Student Therapy Services	102,380	102,380	93,380	9,000
<i>2700 Support Services - Special Education</i>				
2710 Administrative Costs	270,223	270,223	255,963	14,260
2730 Transportation Costs	198,050	240,856	240,856	-
2750 Other Special Education Costs	90,000	90,000	58,635	31,365
4500 Early Retirement	28,975	61,081	61,081	-
7000 Contingencies	47,055	-	-	-
Total Expenditures	3,700,000	3,729,154	3,477,474	251,680
Excess of Revenue Under Expenditures	(579,508)	(608,662)	(352,503)	256,159
Other Financing Sources:				
5110 Transfers In	579,508	579,508	480,000	(99,508)
Net Change in Fund Balances	-	(29,154)	127,497	156,651
Fund Balance -- Beginning	257,764	257,764	257,764	-
Fund Balance -- Ending	\$ 257,764	\$ 228,610	\$ 385,261	\$ 156,651

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT 51-1

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

IMPACT AID FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual -	
	Original	Final	Budgetary Basis	Variance
Revenues:				
1500 Earnings on Investments and Deposits	\$ -	\$ -	\$ 292	\$ 292
<i>4000 Revenue from Federal Sources:</i>				
4110 Unrestricted Grants-in-Aid Received				
Directly from Federal Government	6,500,000	6,500,000	8,113,003	1,613,003
Total Revenues	6,500,000	6,500,000	8,113,295	1,613,295
Other Financing Sources (Uses):				
5110 Transfers In	2,605,873	2,605,873	-	(2,605,873)
8110 Transfers Out	(9,105,873)	(9,105,873)	(7,715,293)	1,390,580
Total Other Financing Uses	(6,500,000)	(6,500,000)	(7,715,293)	(1,215,293)
Net Change in Fund Balances	-	-	398,002	398,002
Fund Balance -- Beginning	14,740,628	14,740,628	14,740,628	-
Fund Balance -- Ending	\$ 14,740,628	\$ 14,740,628	\$ 15,138,630	\$ 398,002

The accompanying supplementary notes are an integral part of this statement.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS FOR RETIREE HEALTH
INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actual Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b - a) / c)
07/01/08	\$ -	\$ 746,980	\$ 746,980	\$ -	\$ 12,294,791	6.1%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
06/30/09	\$ 86,438	37.21%
06/30/10	86,438	21.96%

DOUGLAS SCHOOL DISTRICT 51-1

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2010

1. Budgets and Budgetary Accounting

The District followed these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the first regular board meeting in May of each year, the School Board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
- 2) The proposed budget is considered by the School Board at the first regular meeting held in the month of May each year.
- 3) The proposed budget is published for public review no later than July 15th each year.
- 4) Public hearings are held to solicit taxpayer input prior to the approval of the budget.
- 5) Before October 1st of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, with the exception of Fiduciary Funds.
- 6) After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
- 7) A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- 8) If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budget when moneys are available to increase legal spending authority.
- 9) Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
- 10) Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- 11) The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Required Supplementary Information Schedule, the purchase of a bus would be reported as an expenditure of the Support Services/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

SINGLE AUDIT SECTION

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

The District is confident the financial statements are accurate and is willing to accept the risk associated with the auditors preparing the financial statements; therefore, Finding 07-01 will be repeated for the year ending June 30, 2010.

The District continues to work on having all adjustments made prior to the annual audit, but the results of the audit again resulted in significant audit adjustments; therefore, Finding 09-01 will be repeated for the year ending June 30, 2010.

DOUGLAS SCHOOL DISTRICT NO. 51-1

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLANS JUNE 30, 2010

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Douglas School District No. 51-1 (the District).
2. A significant deficiency and a material weakness were disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. A significant deficiency and a material weakness were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the District expresses a qualified opinion.
6. The programs tested as major programs are:
 - Impact Aid – Maintenance and Operations, CFDA #84.041;
 - State Fiscal Stabilization Fund-Education State Grant, Recovery Act, CFDA #84.394;
 - Title I Grant to Local Educational Agencies Cluster CFDA #84.010 and #84.389
 - Special Education Cluster CFDA #84.027, #84.173, #84.391, and #84.392
7. The threshold for distinguishing Type A and B programs was \$300,000.
8. The District was determined to be a low-risk auditee.

B. FINDING – Financial Statement Audit

Material Weakness

07-01 Finding: Preparation of Financial Statements

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Accounting standards require auditors to communicate this situation to the School Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's financial statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for us to do with organizations of the District's size. However, it is our responsibility to inform the School Board that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District's management.

Criteria: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the District's statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLANS (CONTINUED)
JUNE 30, 2010**

B. FINDING –Financial Statement Audit (Continued)

Material Weakness (Continued)

07-01 Finding: Preparation of Financial Statements (Continued)

Recommendation: It is the responsibility of management and the School Board to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: Both management and the School Board have been informed of this process and are confident that the information is accurate and are willing to accept this risk. The Business Manager is responsible for the corrective action plan for this finding.

Significant Deficiency

09-01 Finding: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed eight audit adjustments. The adjustments included reclassifying special education funding to the appropriate fund, adjusting food service net assets to actual, correcting property taxes receivable, recording additional accounts payable, reclassifying expenses, adjusting accrued leave and adjusting health insurance accrual.

Criteria: These adjustments were not recorded through the District's existing internal controls, and therefore, resulted in misstatements of the District's financial statements. The adjustment to the health insurance accrual was the result of an overstatement of an estimate that was based on information provided by a third party, and actual results did not reflect the accrual.

Recommendation: We recommend management record these adjustments, which are necessary to comply with accounting principles generally accepted in the United States of America. Additionally, we recommend the District develop procedures to review account balances and record all necessary adjusting entries prior to audit fieldwork.

Response/Corrective Action Plan: The District will continue to work on having all adjustments made prior to the annual audit, and believes an extended due date for the annual report may aid in this matter. The Business Manager is responsible for the corrective action plan for this finding.

C. FINDINGS AND QUESTIONED COSTS – Major Federal Award Program Audit

Material Weakness

10-01 Finding: Payroll Allocation Documentation

Condition: Adequate documentation to support allocations of payroll expenditures to federal programs was not available in accordance with the allowable cost principles under Circular A-133.

Criteria and Effect: OMB Circular A-87 requires documentation to support allocations of payroll when employees work on single or multiple federal awards. Compliance with all grant terms and related cost principles must be part of any effective internal control system. If significant payroll allocations are not properly documented, it could lead to severe problems, such as questioned costs under OMB Circular A-87. When an employee is allocated entirely to a federal program, a semi-annual certification must be completed. During testing, we noted 12 employees out of a sample 23 did not have appropriate documentation.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLANS (CONCLUDED)
JUNE 30, 2010**

C. FINDINGS AND QUESTIONED COSTS – Major Federal Award Program Audit (Continued)

Material Weakness (Continued)

10-01 Finding: Payroll Allocation Documentation (Continued)

Questioned Costs: We noted questioned costs of \$5,583 from a sample of \$14,891 for the Special Education Cluster (CFDA #84.027, #84.173, #84.391, and #84.392). The total population of the Special Education Cluster payroll expenditures was \$392,472.

Additionally, we noted questioned costs of \$1,933 for the Title I Grant to Local Educational Agencies Cluster (CFDA #84.010 and #84.389). We isolated the Title I payroll questioned costs to two employees' salaries totaling \$92,780. We noted an additional \$9,000 of questioned costs for Title I, which was isolated to a specific one-time situation.

Recommendation: A process should be developed to review time records maintained for allocation of payroll costs charged to federal grants. Documentation to support such allocations should be maintained by pay period for all payroll expenditures allocated to a federal program. Each pay period, the grants director or the business manager should review the allocation documentation for any employee charged partially to a federal grant. Semi-annual certifications should be completed for all employees charged entirely to one federal program. These certifications should be reviewed by the grants director or the business manager semi-annually to ensure all certifications are properly completed.

Response/Corrective Action Plan: The District has implemented several recommendations: (1) Each employee who is paid using a time card will clock in and out under whichever fund or grant they are paid from. (2) Every employee who is paid from a fund or grant - other than the general fund - will have a semi-annual certification completed. (3) Any payroll funds expended from any ARRA grant will be documented with a time card, and our employees are working with our auditors for proper documentation. (4) Finally, the District is looking into possible alternative payment options for future budget years - because so many funds are transferred into the Special Education Fund from the Impact Aid, those who have allocated costs may be paid out of the General Fund in the future if the Administration feels this is appropriate. The Business Manager and Program Director are responsible for the corrective action plan for this finding.

Significant Deficiency

10-02 Finding: Preparation of Schedule of Expenditures of Federal Awards

Condition: The District prepared the Schedule of Expenditures of Federal Awards (the Schedule) for the year ended June 30, 2010. However, during the audit process, significant changes were made to the Schedule. Accounting standards require auditors to communicate this situation to the School Board as an internal control deficiency.

Programs Affected: Impact Aid – Maintenance and Operations, CFDA #84.041

Criteria: OMB Circular A-133 requires the District to prepare the Schedule to include the amount of federal awards expended for each federal program by agency, the pass through entity, and the CFDA number.

Recommendation: We have instructed management to review the changes made to the Schedule in detail for accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of the Schedule's preparation.

Response/Corrective Action Plan: The District will double-check, in the future, the Schedule in detail for accuracy, and will research further if any questions arise. The Business Manager is responsible for the corrective action plan for this finding.

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture:</i>		
Pass-Through the S.D. Department of Education:		
Non-Cash Assistance		
National School Lunch Program (Notes 5 and 8)	10.555	\$ 29,892
Cash Assistance		
School Breakfast Program (Notes 2 and 5)	10.553	115,488
National School Lunch Program (Notes 2 and 5)	10.555	378,078
Total U.S. Department of Agriculture		523,458
<i>U.S. Department of Defense:</i>		
Direct Federal Funding:		
National Defense Authorization Act - Section 386	12.XXX	213,896
<i>U.S. Department of the Interior:</i>		
Pass-Through the S.D. Department of Education:		
Taylor Grazing (Note 1)	15.227	83
National Mineral Leasing (Note 1)	15.227	1,657
Total U.S. Department of the Interior		1,740
<i>U.S. Department of Education:</i>		
Direct Federal Funding:		
Impact Aid -- Maintenance and Operations (Note 3)	84.041	8,375,836
Pass-Through the S.D. Department of Education:		
Title I Programs -- Local Educational Agencies (Notes 3 and 7)	84.010	373,014
ARRA - Title I Grants to Local Educational Agencies (Notes 3 and 7)	84.389	184,955
Special Education -- State Grants (P.L. 94-142) (Notes 3 and 6)	84.027	533,725
ARRA - Special Education -- Grants to Schools (IDEA, Part B) (Notes 3 and 6)	84.391	557,306
Vocational Education -- Basic Grants to States	84.048	22,694
Title VII Indian Education Grant	84.060	23,878
Special Education -- Preschool Grants (P.L. 99-457) (Notes 3 and 6)	84.173	24,668
ARRA - Special Education -- Preschool Grant (IDEA Preschool) (Notes 3 and 6)	84.392	26,793
Safe and Drug-Free Schools and Communities -- State Grants (Title IV)	84.186A	10,585
Enhancing Education Through Technology	84.318X	5,905
Improving Teacher Quality State Grants	84.367A	215,072
ARRA - State Fiscal Stabilization Fund -- Education State Grant (Note 3)	84.394	685,294
Total U.S. Department of Education		11,039,725
<i>U.S. General Services Administration:</i>		
Pass-Through the S.D. Federal Property Agency		
Donation of Federal Surplus Property (Note 8)	39.003	13,468
Total		\$ 11,792,287

DOUGLAS SCHOOL DISTRICT NO. 51-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

- Note 1: Federal reimbursements are not based on specific expenditures; therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 2: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.
- Note 3: This represents a major federal award program.
- Note 4: Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting.
- Note 5: These are a part of the Child Nutrition Cluster.
- Note 6: These are a part of the Special Education Cluster.
- Note 7: These are a part of the Title I Grant to Local Educational Agencies Cluster.
- Note 8: These amounts include non-monetary assistance which is reported at fair market value of the commodities received and disbursed.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Douglas School District No. 51-1
Meade and Pennington Counties, South Dakota

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plans, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans Part B as Finding 07-01 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plans Part B as Finding 09-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the South Dakota Legislature, the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-1, this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP
Certified Public Accountants

March 17, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Douglas School District No. 51-1
Meade and Pennington Counties, South Dakota

Compliance

We have audited the compliance of **DOUGLAS SCHOOL DISTRICT NO. 51-1** (the District) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Part C Finding 10-1 in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans, the District did not comply with requirements regarding Allowable Costs/Cost Principles that are applicable to its major federal programs – Special Education Cluster (CFDA #84.027, #84.173, #84.391, and #84.392) and Title I Grant to Local Educational Agencies Cluster (CFDA #84.010 and 84.389). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans in Part C as Finding 10-01 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans in Part C as Finding 10-02 to be a significant deficiency.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plans. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the South Dakota Legislature, the School Board and management of the District, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-1, this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP
Certified Public Accountants

March 17, 2011